

depreciable base limit will be determined based upon the facts in each instance. Prior written approval from the Rate Setting Unit is mandatory. The number of Medicaid patients and the nature of the service provided by a facility will be considered in this determination.

Travel log(s) must be maintained for each vehicle in which a reimbursement allowance is recognized showing vehicle identification number, date, driver, beginning and ending odometer readings, passenger names, except for group activities when the number of patients must be recorded, destination and purpose of travel. If the travel logs indicate less than 100% nursing facility business use, only the percentage attributable to nursing facility business use will be recognized.

Recognized depreciation on motor vehicles shall be in accordance with depreciation attributable to first the oldest auto acquired or leased on the records of the facility and second, if the facility is entitled to more than one vehicle, to the next oldest vehicle acquired or leased on the records of the facility.

However, in all cases, the Department of Human Services reserves the right to make the determination of entitlement based upon the facts in each instance. The number of Medicaid patients and the nature of the service provided by a facility will be considered in this determination.

Donated Assets

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Where certain assets have been donated, their basis for depreciation purposes shall be the fair market value on the date of donation.

Sales Commissions and Brokerage Fees

Sales commission and brokerage fees are includable in the new owner's depreciable base subject to prior written approval from the Department of Health, Division of Medical Care Standards and the Department of Human Services, Division of Medical Services.

RECOVERY OF DEPRECIATION

Sale of Real Property

An agreement to sell a facility in whole or in part must provide that written approval be obtained from the Department of Health as a condition to licensure and cost reimbursement. Also, the seller must submit the form entitled, Sale of Nursing Home, to both Health and Human Services before the closing in order to facilitate final settlement between the State and the facility. The State must respond with 60 days.

Real Property

The State will recover allowed depreciation from any excess proceeds realized on

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the sale of a nursing facility. The excess proceeds represents the excess of the selling price over book value (cost minus the depreciation used for reimbursement purposes).

The depreciation to be recovered will be computed as follows for all sales on or after September 1, 1996:

a. Period commencing January 1, 1972: The amount of depreciation subject to recovery by the State will be reduced by 2 1/2 percent for each year the asset has participated in the program since January 1, 1972.

Recovery of depreciation would never exceed actual amounts paid for depreciation costs as a part of the per diem reimbursement rate. In those instances where the actual per diem costs exceeds the maximum per diem reimbursement rate, the appropriate percentage factor will be utilized in order to ensure that only depreciation actually paid for will be subject to recapture.

Notwithstanding the above recovery of depreciation provisions, the State will not recover depreciation with respect to the following facility sales:

1. Any sale of a nursing facility more than two years after the date such facility voluntarily or involuntarily ceases to participate in the Rhode Island Medical Assistance

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Program; or

2. A sale of a nursing facility within two years of the date that such facility voluntarily or involuntarily ceases to participate in the Rhode Island Medical Assistance Program, provided that within said two year period, the facility begins operation as a licensed sheltered care facility pursuant to Chapter 23-17.4 of the R.I. General Laws.

Personal Property

The same rules listed above also apply to the recovery of depreciation on any gain realized on the sale of personal property (equipment, furniture, fixtures, motor vehicles, etc.).

Method of Payment

Amounts due the State for recovery of depreciation as the result of the sale of any entire facility as an ongoing operation must be paid at the final closing. Amounts due as a result of the sale of personal property of an ongoing facility will be paid by reducing the monthly vendor payroll. For other amounts due the State, the seller may for sufficient cause request additional payment time, the granting of which may require the execution of an escrow agreement with the State.

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Gain or Loss on the Trade-In of Depreciable Personal Property

No gain or loss is recognized on the Trade-In of depreciable personal asset toward the purchase of a similar asset. However, the basis of the newly acquired property must be adjusted to reflect a basis equal to the sum of the:

- a. Cost less depreciation allowed for reimbursement of the asset traded,
- b. Additional funds provided to purchase the new asset.

INTEREST

Long-Term Financing

Certain limitation on allowable interest costs are applicable to facilities commencing operations, expanding existing operations, or transferring ownership on or after January 1, 1977 unless an irrevocable financing agreement or buy/sell agreement has been executed prior to 1-1-77. These limitation are enumerated below:

1. **Minimum Investment** - A minimum equity investment equal to 10 percent of the total cost is required to obtain recognition of interest expense on mortgage indebtedness on the construction of capital assets or for the acquisition of ownership in a nursing facility. This requirement can be fulfilled by but not limited to, the following:
 - a. Capital contribution
 - b. Non-interest bearing loan to facility. If the loan is interest bearing, the

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interest will not be recognized.

c. Appraised value of depreciable assets contribution in accordance with American Hospital Association regulations.

d. Appraised value of land contribution but cannot exceed 50 percent of equity requirement.

Interest expense on long term financing will be limited to the application of the interest calculated on the lower of actual principal financed or 90 percent of the recognized cost basis for Medicaid depreciation purposes.

2. **Rate of Interest** - The rate of interest will be subject to review by the State. If the rate is found to be in excess of those rates charged by banks and other lending institutions, the State may withhold licensing approval or adjust the rate downward for reimbursement purposes.

Financing Charges

Sometimes banking and other lending institutions impose charges which are in addition to and separate from stated interest amounts. Those amounts will be considered as allowable subject to the following condition: - The finance charges must be a mandatory requirement imposed by the lender as a condition of granting the loan.

Finance charges must be amortized ratably over the term of the loan.

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Current Financing

Interest costs on bona fide loans for working capital and other current needs relating to patient care are generally reimbursable subject to prior written approval from the Department of Human Services. Interest on working capital loans is limited to 60 days operating needs for a loan term not exceeding 18 months unless prior written approval is received from Human Services and the need is substantiated by a cash flow statement. Emergency short-term loans repayable within 30 days will require no prior approval. Interest expense for working capital loans necessitated by excessive demands on cash flow within the past three (3) year period for non-reimbursable expenses will not be recognized. Such demands of cash could be caused by, but not limited to, the following:

1. Payment of rent/lease to a related realty, individuals and/or entity of the cash requirements of the real estate expenses such as mortgage principal and interest payments, taxes, insurance, etc.
2. Payments to officers, owner and/or family members in excess of the recognized reimbursement compensation pursuant to these Principles for these individuals.
3. Payments made on behalf of officers, owners and/or family members for unreimbursable expenses, such as but not limited to, fringe benefits, conventions and meeting, travel, etc.
4. Payments made to a management company or central home office in excess

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of the facility's pro-rated share of recognized expenses.

Finders Fees

A fee paid to a third party for bringing together the lender and borrower and/or buyer and seller is not reimbursable.

Imputed Interest

Under certain circumstances, the State shall impute interest on loans or advances made by or to a facility in any amount in excess of \$10,000.00 per annum. All loans and advances must be evidenced by a written executed instrument together with a demonstrated need for such borrowing or advance.

Loans or advances made directly or indirectly to an owner, officer, affiliated organization, or other party at little or not charge by a facility with outstanding debt shall be subject to imputed interest. The rate used by the State in calculating imputed interest shall be the prime interest rate as utilized by Fleet National Bank on the day of the loan or advance. The resultant interest income will be used to offset interest expense claimed by the facility.

A facility borrowing funds from an owner(s), partner(s), officer(s), or affiliated

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organization(s) for bona fide reasons approved by the Rate Setting and Auditing Unit will be entitled to claim imputed interest as reimbursable cost based upon the prime interest rate as utilized by Fleet National Bank on the day of the borrowing. Imputed interest for such borrowings will only be recognized if written approval is sought and obtained from the Rate Setting Unit prior to the execution of the written instrument documenting the loan or advance.

Imputed interest does not apply to the minimum equity investment requirement.

REAL ESTATE AND PERSONAL PROPERTY TAXES

For Medicaid purposes, the allowable real estate and personal property taxes will be the four quarterly amounts due and payable during the reporting year or the tax based upon the assessed valuations of the prior December 31. For example, the amount allowable for calendar year 1989 will be the four quarterly installments due and payable during calendar year 1989 or the total tax based on the December 31, 1988 valuations. The basis for reporting will be determined by the provider but must remain consistent from year to year.

PERSONNEL COSTS

Compensation of Owners

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Compensation to an owner or related individual must be reasonable and associated with patient care in order to be reimbursable.

Criteria for Determining Reasonable Compensation to Owners and/or Related Individuals

In judging for reasonableness, the Chief Long Term Care Reimbursement may use but is not limited to:

1. Comparison with payments to individuals, other than owners, in comparable facilities or industries.
2. Equating responsibilities and functions performed with a satisfactory salary range.

The allowance for fringe benefits must be consistent with the compensation above.

Compensation of Administrators

An administrator must be a duly licensed person in the State of Rhode Island and be responsible for the overall management and supervision of a facility. Administrators must work on a full time basis and be substantiated by appropriate time records. Assistant Administrators working full time or part time must also be substantiated by time records. Compensation of an administrator is an allowable cost to the extent it does not exceed

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